



Changes to MLC's fixed income strategies for financial advisers

October 2023

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The following funds are affected by the changes to MLC's fixed income strategy. These funds appear on MLC's platforms, in addition to a number of external platforms:

MLC Investment Trust:

MLC Wholesale Horizon 1 Bond Portfolio
MLC Wholesale Diversified Debt Fund

MLC Super Fund:

MySuper
MLC Stable
MLC Conservative Balanced
MLC Moderate

What's changed and why?

What's changed?

Horizon 1 Bond Portfolio

- Securitised debt strategy removed as a standalone building block allocation.
- Australian short duration credit strategy removed as a standalone building block allocation.
- Replaced with an increased weight to the short maturity debt strategy which contains exposure to securitised debt and Australian short duration credit.

Diversified Debt Fund

- Securitised debt strategy removed as a standalone building block allocation.
- New allocation to the short maturity debt strategy.

Appointment of TCW Asset Management (TCW) securitised debt to short maturity debt strategy

- Whilst the securitised debt strategy has been removed, there is still an important role for TCW to play in the short maturity debt strategy.

Funds affected are:

- MLC Wholesale Horizon 1 Portfolio, MLC Wholesale Diversified Debt Fund, MySuper, MLC Stable, MLC Conservative Balanced, MLC Moderate
- There's no impact on fees as a result of these changes

Client benefits

- We believe the changes will provide better risk-adjusted return outcomes for our fixed income strategies that use the short maturity debt strategy as a building block.

Why?

- The restructure of the short maturity debt strategy will complement the existing MLC fixed income strategies through its lower volatility, higher income and shorter duration approach.
- We believe these changes will generate better and more consistent returns for our diversified fund investors in an environment of higher, more normalised, bond yields.

MLC short maturity strategy

Global: new target manager allocations

Global	Previous	Revised	Change
Wellington 1+ years IG Credit	20%	15%	-5%
Western Management High Grade Multi-Asset Credit	20%	15%	-5%
TCW Securitised Debt	0%	10%	+10%
Total	40%	40%	-

No changes to Australian target manager allocations.

Australian	Current	Change
Antares Credit	15.0%	-
Janus Henderson Income	30.0%	-
Metrics Diversified Australian Senior Loan	15.0%	-
Total	60.0%	-

MLC Diversified Debt Fund & Horizon 1 Portfolio

New target strategy allocations



ASSET MANAGEMENT

Diversified Debt Fund	Previous	Revised	Change
All maturities	90%	90%	-
Short maturities	-	5%	+5%
Extended credit	5%	5%	-
Securitised debt [^]	5%	-	-5%
Total	100%	100%	-

Horizon 1 Portfolio	Current	Revised	Change
Short maturities	55%	77.5%	+22.5%
Aust short duration credit*	15%	-	-15.0%
Extended credit	7.5%	7.5%	-
Securitised debt [^]	7.5%	-	-7.5%
Enhanced cash	15%	15%	-
Total	100%	100%	-

*Antares Short Duration Credit. [^]TCW Securitized Debt.
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Profile of TCW Asset Management (TCW)

About TCW

- Appointed to manage securitised debt in 2021.
- Established in 1971 and based in Los Angeles.
- TCW's securitised debt team is:
 - large – 20+ investment professionals
 - stable – majority of the team have 10+ years with TCW
 - experienced – four key professionals have 23+ years' experience, and 12+ years with TCW
 - responsible for approx 40% of TCW's assets under management
- TCW opportunistically invests across a wide range of securitised sectors, mostly comprising mortgage-backed securities, both residential and commercial. It also invests in other asset-backed securities such as student loans and a small allocation to collateralised loan obligations.



Why we've appointed TCW

- The team at TCW have built an extensive array of proprietary analytical tools and loan-level databases, allowing them to efficiently identify mispricing opportunities across a very broad and diverse investment universe.
- The complexity of securitised structures and the quantity of underlying loans mean a strong data and analytics capability is crucial and this is a key differentiator of TCW relative to other securitised debt managers.
- Their investment process provides an attractive yield with low default-risk and is well suited to MLC's fixed income funds.
- TCW has an extremely disciplined and downside risk-focussed approach, while being able to take full advantage of market dislocations and inefficiencies in the securitised markets.

Communication plan

When	Who	What	Where
October 2023	Advisers	This presentation outlining the changes	<ul style="list-style-type: none"> • Internal mlcamcomms email to BDMs • Included in Adviser Bulletin email to advisers • Published in adviser sections of mlc.com.au and mlcam.com.au (in 'Strategy updates' section)
Late October 2023	Advisers	Investment update for financial advisers MLC's scenario insights & portfolio positioning	<ul style="list-style-type: none"> • Published on mlc.com.au (in Fund Commentaries, under Prices and Performance accessed from Adviser tab) and mlcam.com.au (under 'Latest quarterly reporting resources' in 'Adviser only' section)
Late October 2023	Advisers and clients	Fund commentaries	<ul style="list-style-type: none"> • mlc.com.au/fundprofiletool • mlcam.com.au/MLCWholesale, select Fund Profile Tool
Late January 2024	Advisers	MLC Wholesale fixed income funds update	<ul style="list-style-type: none"> • Published on mlc.com.au (in Fund Commentaries, under Prices and Performance accessed from Adviser tab) and mlcam.com.au (under 'Latest quarterly reporting resources' in 'Adviser only' section)